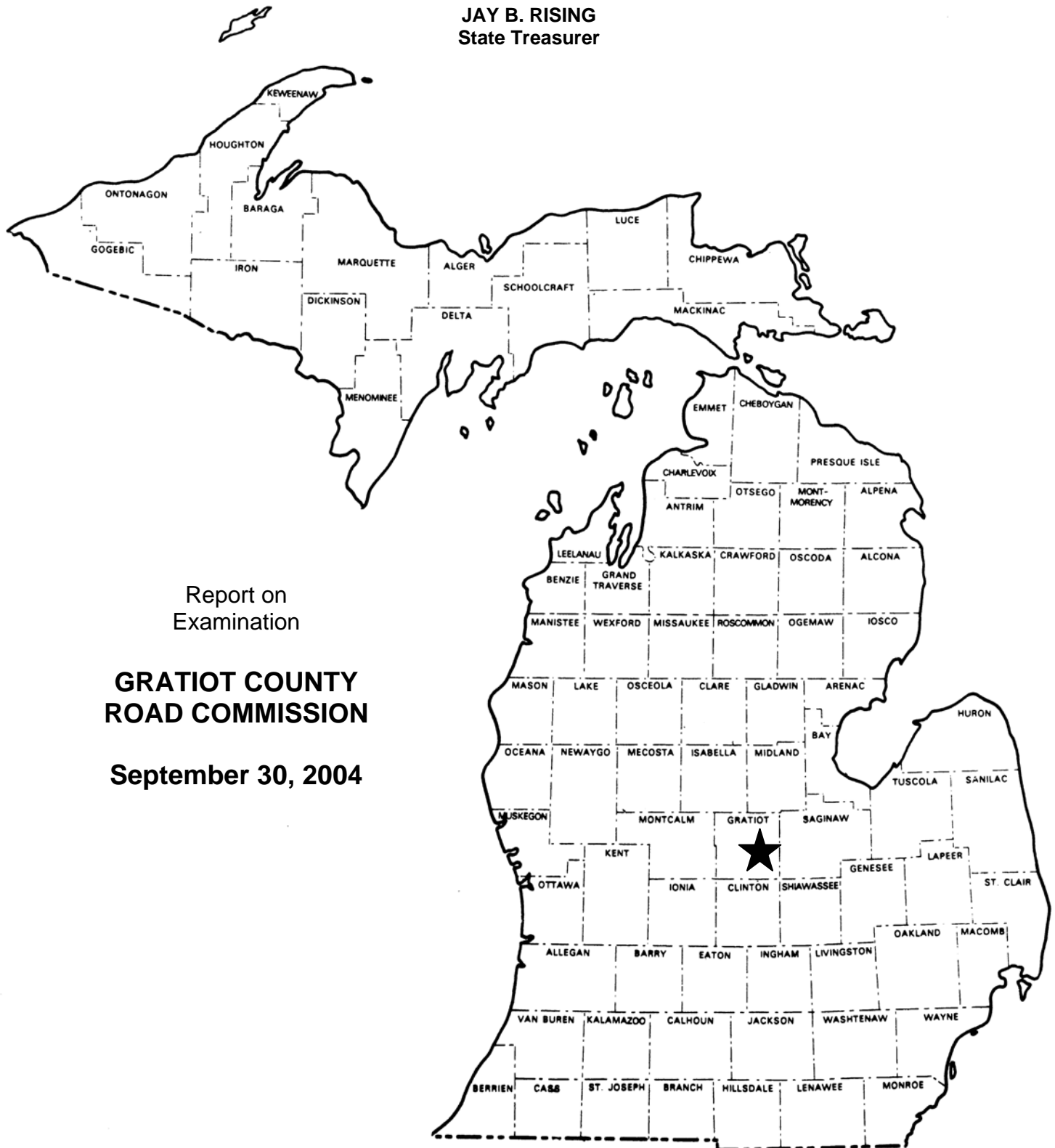


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Local Audit and Finance Division  
Bureau of Local Government Services

GRATIOT COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Denis Netzley  
Chairman

Wesley O. Federspiel  
Vice-Chairman

Leslie Whitford  
Member

Fred Walkington  
Superintendent/Manager

Thomas J. Mayan  
County Highway Engineer

Betty Schumacher  
Finance Director/Clerk

COUNTY POPULATION--2000  
42,285

STATE EQUALIZED VALUATION--2004  
\$1,018,390,419



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

December 17, 2004

Board of County Road Commissioners  
Gratiot County  
200 Commerce Drive  
Ithaca, Michigan 48847

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Gratiot County Road Commission, a component unit of Gratiot County, Michigan, as of and for the year ended September 30, 2004, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gratiot County Road Commission as of September 30, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 6 and budget comparison information on pages 25 and 26 are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004 on our consideration of the Gratiot County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Gratiot County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

GRATIOT COUNTY ROAD COMMISSION

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# **GRATIOT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Using this Annual Report

The Gratiot County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Report the Road Commission's Major Fund

The fund financial statements begin on page seven and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### The Road Commission as a Whole

The Road Commission's net assets decreased approximately 20.79% or \$5,988,217 from \$34,790,333 to \$28,802,116 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$201,093. The investment in capital assets, net of related debt decreased by \$6,189,310, which was primarily due to \$6,634,983 worth of accumulated depreciation through 2002 for gravel roads not being recorded in 2003, and included in 2004.

Net assets as of year ended September 30, 2004, are as follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 2,857,663
Net Capital Assets	<u>26,930,600</u>
Total Assets	<u>29,788,263</u>
Current Liabilities	450,855
Non-Current Liabilities	<u>535,293</u>
Total Liabilities	<u>986,148</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	26,930,600
Restricted	<u>1,871,516</u>
Total Net Assets	<u><u>\$ 28,802,116</u></u>

**GRATIOT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2004 follows:

	Governmental Activities		
	2003	2004	Increase (Decrease)
Program Revenue			
Licenses and Permits	\$ 24,099	\$ 28,820	\$ 4,721
Federal Grants	1,806,840	832,580	(974,260)
State Grants	4,556,323	4,969,294	412,971
Contributions From Local Units	748,557	792,251	43,694
Charges for Services	861,135	812,820	(48,315)
Investment Earnings	14,253	16,488	2,235
Reimbursements	45,221	53,062	7,841
General Revenue			
Insurance Recoveries	4,199	16,465	12,266
Gain on Equipment Disposal	155,708	36,337	(119,371)
Total Revenue	8,216,335	7,558,117	(658,218)
Expenses			
Primary Road Maintenance	1,035,074	1,233,853	198,779
Local Road Maintenance	2,039,623	2,481,504	441,881
State Trunkline Maintenance	855,979	920,672	64,693
Net Equipment Expense	237,524	(117,895)	(355,419)
Net Administrative Expense	362,750	341,433	(21,317)
Non-Road Project	19,158	101,713	82,555
Infrastructure Depreciation	1,777,853	1,971,195	193,342
Compensated Absences	19,581	(21,124)	(40,705)
Total Expenses	6,347,542	6,911,351	563,809
Change in Net Assets	\$ 1,868,793	\$ 646,766	\$ (1,222,027)

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.



**GRATIOT COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended September 30, 2004, the fund balance of the General Operations Fund increased \$179,968 as compared to a increase of \$320,750 in the fund balance for the year ended September 30, 2003 (last year). Total operating revenues were \$7,558,115, a decrease of \$658,220 as compared to last year. This change in revenues resulted primarily from a decrease in Federal STP, Category D money and critical bridge money received.

Total expenditures were \$7,378,147, a decrease of \$517,437 as compared to last year. This change in expenditures is primarily due to the decrease in structure work and the net equipment expense and net capital outlay expense being credits to the expense page.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2004 was less than the actual revenue by \$1,090,225. This was due, in large part to the following revenue sources being higher by the following amounts: Federal aid projects (\$294,314), MTF distribution (\$411,147), state economic development fund projects (\$277,814) and more non-maintenance State projects than expected (\$105,271).

The Road Commission's original expenditures were projected at \$7,306,645, while actual expenditures were \$7,378,147. This resulted in total expenditures being over original budget by \$71,502. This was primarily due to primary and local maintenance and heavy maintenance. State trunkline maintenance, and state non-maintenance projects being higher than projected by a combined amount of (\$1,621,211), and a decrease in projected net capital outlay (\$472,928).

# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2004 (year end), the Road Commission had \$26,930,600 invested in capital assets as follows:

	2003	2004	Percentage Change 2003-2004
Capital Assets Not Being Depreciated			
Land	\$ 116,903	\$ 116,903	0.00%
Infrastructure	107,844	107,844	0.00%
Construction in Progress		107,213	0.00%
Subtotal	<u>224,747</u>	<u>331,960</u>	<u>47.70%</u>
Capital Assets Being Depreciated			
Land Improvements	59,959	59,959	0.00%
Buildings	1,569,347	1,634,255	4.14%
Equipment	5,291,547	5,318,460	0.51%
Yard and Storage	16,573	16,573	0.00%
Infrastructure	<u>41,253,331</u>	<u>43,895,137</u>	<u>6.40%</u>
Subtotal	<u>48,190,757</u>	<u>50,924,384</u>	<u>5.67%</u>
Total Capital Assets	<u>48,415,504</u>	<u>51,256,344</u>	<u>5.87%</u>
Total Accumulated Depreciation	<u>(21,930,577)</u>	<u>(24,325,744)</u>	<u>10.92%</u>
Total Net Capital Assets	<u><u>\$ 26,484,927</u></u>	<u><u>\$ 26,930,600</u></u>	<u><u>1.68%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$3,169,947. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 390,464
Various Resurfacing Projects and Related Land/Right-of-Way	2,251,342
Trucks/Equipment	352,546
Salt Shed and Building Repair	172,121
Administrative and Engineering	<u>3,474</u>
Total Additions	<u><u>\$ 3,169,947</u></u>

There were no installment purchase agreements entered into during 2004. All the equipment was acquired with Road Commission funds.

**GRATIOT COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

During 2004, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$329,106, related depreciation of \$184,209, and net book value of \$144,897.

Debt

The Road Commission currently experiences a relatively debt free status. Bonds issued in prior years have been paid off and retired. The Road Commission currently has long-term debt in the amount of \$286,354, a decrease of \$21,124 from the prior year, which represents compensated absences payable at September 30, 2004.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 61.67% of its revenues from the fuel tax collected.

The board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Gratiot County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Gratiot County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about his report or need additional financial information, contact the Gratiot County Road Commission administrative offices at 200 Commerce Drive, Ithaca, MI 48847.

**GRATIOT COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2004**

**EXHIBIT A**

**ASSETS**

Cash	\$ 1,539,120
Accounts Receivable	
Sundry Accounts	6,084
State--Trunkline Maintenance	13,394
Michigan Transportation Fund	788,659
State--Other	179,656
Due on County Road Agreements	47,195
Inventories	
Road Materials	151,602
Equipment Parts and Materials	115,533
Deferred Expenses	16,420
Capital Assets (Net of Accumulated Depreciation)	<u>26,930,600</u>
Total Assets	<u>29,788,263</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	367,209
Due to State of Michigan	59,830
Accrued Liabilities	23,716
Performance Bonds Payable	100
Non Current Liabilities	
Advance From State	248,939
Vested Employee Benefits Payable	<u>286,354</u>
Total Liabilities	<u>986,148</u>

**NET ASSETS**

Investment in Capital Assets, Net of Related Debt	26,930,600
Restricted for County Roads	<u>1,871,516</u>
Total Net Assets	<u><u>\$28,802,116</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2004**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 1,233,853
Local Road Maintenance	2,481,504
State Trunkline Maintenance	920,672
Net Equipment Expense	(117,895)
Net Administrative Expense	341,433
Infrastructure Depreciation	1,971,195
Compensated Absences	(21,124)
Other	101,713
	<hr/>
Total Program Expenses	6,911,351
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	28,820
Charges for Services	812,820
Reimbursements	53,062
Operating Grants and Contributions	
Michigan Transportation Funds	4,661,147
Investment Earnings	16,488
Capital Grants and Contributions	
Federal Grants	832,580
State Grants	308,147
Contributions From Local Units	792,251
	<hr/>
Total Program Revenue	7,505,315
	<hr/>
Net Program Revenue	593,964
	<hr/>
General Revenue	
Insurance Recoveries	16,465
Gain on Equipment Disposal	36,337
	<hr/>
Total General Revenue	52,802
	<hr/>
Change in Net Assets	646,766
	<hr/>
Net Assets	
Beginning of Year	34,790,333
	<hr/>
Restatement of Beginning Assets (Note F)	(6,634,983)
	<hr/>
End of Year	\$28,802,116
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION  
BALANCE SHEET  
September 30, 2004**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$1,539,120
Accounts Receivable	
State Trunkline	13,394
Michigan Transportation Fund	788,659
State Highway--Other	179,656
Due on County Road Agreements	47,195
Sundry Accounts	6,084
Inventories	
Road Materials	151,602
Equipment Parts and Materials	115,533
Deferred Expense	<u>16,420</u>
Total Assets	<u><u>\$2,857,663</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 367,209
Accrued Liabilities	23,715
Due to State of Michigan	59,830
Performance Bonds Payable	100
Advance From State	<u>248,939</u>
Total Liabilities	<u>699,793</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>2,157,870</u>
Total Fund Equities	<u>2,157,870</u>
Total Liabilities and Fund Equities	<u><u>\$2,857,663</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2004**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 2,157,870
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,930,600
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	(286,354)
--	-----------

Net Assets of Governmental Activities	<u><u>\$28,802,116</u></u>
---------------------------------------	----------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**For the Year Ended September 30, 2004**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
License and Permits	\$ 28,820
Federal Aid	832,580
State Aid	4,969,294
Contributions From Local Units	792,251
Charges for Services	791,320
Interest and Rents	16,488
Other Revenue	<u>110,897</u>
Total Revenues	<u>7,541,650</u>
Expenditures	
Public Works	6,850,006
Capital Outlay	<u>528,141</u>
Total Expenditures	<u>7,378,147</u>
Excess of Revenues Over (Under) Expenditures	<u>163,503</u>
Other Financing Sources	
Insurance Recovery	<u>16,465</u>
Total Other Financing Sources	<u>16,465</u>
Excess of Revenues and Other Financing Sources Over Expenditures	179,968
Fund Balance--October 1, 2003	<u>1,977,901</u>
Fund Balance--September 30, 2004	<u><u>\$2,157,870</u></u>

**The Notes to Financial Statements are an integral part of this statement.**



**GRATIOT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2004**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds	\$179,968
--	-----------

Amounts reported for governmental activities in the statement are different because:

<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	445,673
--	---------

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)</p>	<u>21,124</u>
--	---------------

Change in Net Assets of Governmental Activities	<u><u>\$646,766</u></u>
---	-------------------------

**The Notes to Financial Statements are an integral part of this statement.**

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Gratiot County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Gratiot County Road Commission.

#### NOTE A--REPORTING ENTITY

The Gratiot County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Gratiot County Road Commission, a discretely presented component unit of Gratiot County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Gratiot County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB Statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund, Statement of Net Assets.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91, et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943, as amended.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

<u>Deposits</u>	<u>Bank Deposit</u>	<u>Carrying Amount</u>
Imprest Cash		\$ 200
Insured (FDIC)	\$ 200,000	200,000
Uninsured	<u>1,434,916</u>	<u>1,338,920</u>
Total	<u>\$ 1,634,916</u>	<u>\$ 1,539,120</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

### NOTE E--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Gratiot County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/2003	Additions	Deductions	Account Balances 09/30/2004
Capital Assets Not Being Depreciated				
Land (Note 1 Below)	\$ 116,903			\$ 116,903
Infrastructure--Land/Right-of-Way	3,086			3,086
Infrastructure--Land Improvements	104,758			104,758
Construction in Progress (Note 2 Below)		\$ 107,213		107,213
Subtotal	224,747	107,213	\$ -	331,960
Capital Assets Being Depreciated				
Land Improvements	59,959			59,959
Buildings	1,569,347	64,908		1,634,255
Road Equipment	4,884,244	347,303	329,106	4,902,441
Shop Equipment	107,121	5,242		112,363
Office Equipment	209,441	3,474		212,915
Engineer's Equipment	90,741			90,741
Yard and Storage	16,573			16,573
Infrastructure--Bridges	14,305,375	390,464		14,695,839
Infrastructure--Roads	26,943,398	2,251,342		29,194,740
Infrastructure--Traffic Signals	4,558			4,558
Total	48,190,757	3,062,733	329,106	50,924,384
Less Accumulated Depreciation				
Land Improvements	33,121	1,723		34,844
Building	486,461	29,099		515,560
Road Equipment	3,411,016	543,862	184,209	3,770,669
Shop Equipment	63,707	8,056		71,763
Office Equipment	109,506	19,870		129,376
Engineer's Equipment	70,445	4,743		75,188
Yard and Storage	10,013	829		10,842
Infrastructure--Bridges	3,734,414	309,918		4,044,332
Infrastructure--Roads (Note 3 Below)	14,007,923	1,661,203		15,669,126
Infrastructure--Traffic Signals	3,971	73		4,044
Total	21,930,577	2,579,376	184,209	24,325,744
Net Capital Assets Being Depreciated	26,260,180	3,062,733	2,724,273	26,598,640
Total Net Capital Assets	\$ 26,484,927	\$ 3,169,946	\$ 2,724,273	\$ 26,930,600

Note 1: Effective October 1, 2003, land in the amount of \$116,903 was reclassified separately from Land and Improvements.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

Note 2: Construction Commitment--The Road Commission has an active construction project at year-end. The project is for construction of a chemical storage facility with a total contracted cost of \$543,350, which is funded 75 % by the State of Michigan and 25% by the Road Commission. At fiscal year-end the government's commitments with contractors are as follows:

Spent to Date (Recorded as Construction in Progress)	\$107,213
Remaining Commitment	436,137

Note 3: The October 1, 2003 account balance for Accumulated Depreciation-Infrastructure-Roads includes a \$6,634,983 adjustment to correct a prior year error in recording accumulated depreciation on gravel roads. The adjustment restates the October 1, 2003 account balance for Accumulated Depreciation-Infrastructure-Roads from \$7,372,940 to \$14,007,923; and restates Total Net Capital Assets at October 1, 2003 from \$33,119,910 to \$26,484,927.

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 543,862
Indirect Equipment	
Shop Building	23,026
Storage Building	829
Shop Equipment	8,056
State Salt Shed	2,010
Net Administrative Expense	
Buildings	4,063
Office Equipment and Furniture	19,870
Engineers Equipment	4,743
Land Improvements	1,723
Infrastructure	<u>1,971,194</u>
Total Depreciation Expense	<u><u>\$ 2,579,376</u></u>



# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--GENERAL LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balances 10/01/03	Additions (Reductions)	Balances 09/30/04
Vested Employee Benefits			
Vacation Benefits	\$143,921	\$ 598	\$144,519
Sick Leave Benefits	163,557	(21,722)	141,835
Total	<u>\$307,478</u>	<u>\$(21,124)</u>	<u>\$286,354</u>

### Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee are credited to his/her banks monthly, as determined on their anniversary date and years of service. Maximum allowable accumulations are 450 hours for salaried employees and 320 hours for all other full time Road Commission employees. Upon separation from employment, 100% of accumulated vacation leave is payable to employees.

### Sick Leave Benefits

The Road Commission's employment policies provide that every regular employee shall accumulate sick leave with pay at the rate of 8 hours per month, not to exceed 96 hours per year, with unlimited accumulation for salaried employees and a maximum accumulation of 1040 (130 days) for union employees. Any employee, upon reaching an accumulation of 1,040 hours (130 days) of unused sick time, shall be paid for all additional accrual of sick time at 75% of the employee's current rate on the first pay in the month of December. An employee with a minimum of 3 years service and unused sick leave in excess of 240 hours (thirty days), may opt to sell back to the Road Commission up to 160 hours (20 days) of sick leave annually at 1/2 of the employee's current rate provided their accumulation would not drop below 240 hours (30 days).

Upon death or retirement, union employees shall be paid 1/2 of his/her accumulated sick leave (with a maximum of 520 hours) at the employee's prevailing rate of pay at the time of the termination of employment. Upon death, retirement or termination, salaried employees shall receive a payment of sick leave days paid at their current pay scale, not to exceed 520 hours. Sick leave herein is recorded at 100% of maximum payable leave.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H—EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$51,032. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 5.38% for general employees and 4.71% for salaried employees, for the calendar year December 31, 2003 based on 2001 actuarial determination.

##### Annual Pension Cost

During the calendar year ended December 31, 2003, the Road Commission's contributions totaling \$121,184 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employees contributed \$51,032 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 31,803	100%	\$0
2002	84,839	100	0
2003	82,268	100	0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percent of Covered Payroll</u>
12/31/01	\$9,272,805	\$ 9,154,155	\$ (118,650)	101%	\$ 1,461,244	0%
12/31/02	9,160,395	9,613,880	453,485	95%	1,518,440	30%
12/31/03	9,413,084	9,981,248	453,485	94%	1,533,716	37%

### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--RISK MANAGEMENT (Continued)

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

#### NOTE J--POST-EMPLOYMENT BENEFITS

Prior to July 31, 1997 for union personnel and prior to December 31, 1997 for salaried personnel, the policies provide for the retirees to continue hospitalization coverage by paying their premium to the employer in advance. In the event the employee's monthly premium is more than one month late, the coverage will be canceled. Effective August 1, 1997 for union employees and January 1, 1998 for salaried employees, the Road Commission agrees to pay the first \$200 per month of the hospitalization coverage premium for any union member or salaried employee who retires after the effective date (August 1, 1997 for union and January 1, 1998 for salaried), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 years. One person qualified under this policy during fiscal year ending September 30, 2004.

Effective August 1, 2000 for union employees and December 1, 2000 for salaried employees, the Road Commission agrees to pay the first \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. Three people qualified under this policy during the fiscal year ending September 30, 2004.

Effective August 1, 2003, the Road Commission agrees to pay the first \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2004.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$19,471 for hospitalization benefits during the fiscal year ended September 30, 2004.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$832,580 for contracted projects. The Road Commission neither received nor expended any federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

### NOTE L--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

### NOTE M--CORRECTION OF AN ERROR--NET ASSETS

The September 30, 2003 net assets did not include \$6,634,983 of accumulated depreciation for Infrastructure-Roads, see Note F for more details. Listed below is the effect on the net assets at September 30, 2003:

	<u>Original 09/30/2003</u>	<u>Correction</u>	<u>Adjusted 09/30/2003</u>
Net Assets			
Investment in Capital Assets			
Net of Related Debt	\$33,119,910	\$(6,634,983)	\$26,484,927
Restricted for County Road	<u>1,670,423</u>		<u>\$ 1,670,423</u>
Total Net Assets	<u>\$34,790,333</u>	<u>\$(6,634,983)</u>	<u>\$28,155,350</u>

**GRATIOT COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2004**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 25,000	\$ 28,670	\$ 28,820	\$ 150
Federal Grants				
Surface Transportation Program	361,848	670,571	670,573	2
Federal Critical Bridge	176,418	152,413	152,413	-
Economic D Funds	-	9,593	9,594	1
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,586,000	2,741,000	2,769,322	28,322
Local Road	1,485,000	1,675,000	1,690,517	15,517
Primary Urban Road	145,000	160,000	161,394	1,394
Local Urban Road	24,000	27,500	29,914	2,414
Critical Bridge	33,078	30,333	30,333	-
Economic Development Funds				
"D" Funds	-	5,814	5,814	-
"F" Funds	-	272,000	272,000	-
Contributions--Local Units				
Townships	708,306	792,194	792,251	57
Charges for Services				
State Trunkline Maintenance	400,000	454,225	454,229	4
State Trunkline--Other	225,690	284,277	330,961	46,684
Salvage Sales	4,000	6,120	6,130	10
Interest and Rents				
Interest Earned	10,000	16,162	16,488	326
Other Revenue				
Sale of Land	-	21,500	21,500	-
Private Contributions	39,750	53,040	53,044	4
Reimbursements	-	15	16	1
Gain on Equipment Disposal	229,800	36,335	36,337	2
Total Operating Revenue	6,463,890	7,446,762	7,541,650	94,888
Other Financing Sources				
Insurance Recovery	4,000	16,465	16,465	-
Total Other Financing Sources	4,000	16,465	16,465	-
Total Revenue and Other Financing Sources	6,467,890	7,463,227	<u>\$ 7,558,115</u>	<u>\$ 94,888</u>
Fund Balance--October 1, 2003	949,477	1,977,901		
Total Budget	<u>\$ 7,417,367</u>	<u>\$ 9,441,128</u>		

**GRATIOT COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2004**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 1,140,400	\$ 1,599,983	\$1,504,666	\$ 95,317
Maintenance	795,000	1,295,000	1,189,575	105,425
Local Road				
Heavy Maintenance	888,500	876,985	746,676	130,309
Maintenance	1,750,000	2,350,000	2,311,738	38,262
Primary Road Structure				
Heavy Maintenance	199,800	155,522	113,266	42,256
Local Road Structure				
Heavy Maintenance	269,300	406,381	277,198	129,183
Maintenance	-	169,819	169,765	54
State Trunkline Maintenance	500,000	600,000	589,711	10,289
State Maintenance--Other	69,345	369,345	330,961	38,384
Equipment Expense--Net	(25,000)	75,000		
Direct			\$ 1,148,888	
Indirect			430,154	
Operating			184,689	
Less: Equipment Rentals			<u>(1,883,636)</u>	194,905
Distributive Expenditures	1,200,000			
Administrative Expense--Net	269,300	393,550		
Administrative Expense			422,491	
Less: Handling Charges			(2,486)	
Overhead--State			(78,443)	
Purchase Discounts			<u>(129)</u>	52,117
Non-Road Project	-	101,725	101,713	12
Capital Outlay--Net	250,000	(222,890)		
Capital Outlay			528,141	
Less: Depreciation Credits			(606,171)	
Equipment Retirements			<u>(144,898)</u>	38
Total Expenditures	7,306,645	8,214,698	<u>\$ 7,378,147</u>	<u>\$ 836,551</u>
Fund Balance--September 30, 2004	<u>110,722</u>	<u>1,226,430</u>		
Total Budget	<u>\$ 7,417,367</u>	<u>\$ 9,441,128</u>		

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2004**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,535,382	\$ 3,020,850	\$ 985,418	\$ 7,541,650
Total Expenditures	2,970,549	3,596,761	810,837	7,378,147
Excess of Revenues Over (Under) Expenditures	564,833	(575,911)	174,581	163,503
Other Financing Sources (Uses)				
Optional Transfers	(879,215)	879,215		
Insurance Recovery	-	-	16,465	16,465
Total Other Financing Sources (Uses)	(879,215)	879,215	16,465	16,465
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(314,382)	303,304	191,046	179,968
Fund Balance--October 1, 2003	1,610,734	317,800	49,367	1,977,901
Fund Balance--September 30, 2004	\$ 1,296,352	\$ 621,104	\$ 240,414	\$ 2,157,870



**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended September 30, 2004**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits			\$ 28,820	\$ 28,820
Federal Grants				
Surface Transportation Program	\$ 297,435	\$ 373,138	-	670,573
Federal Critical Bridge		152,413		152,413
Economic D Funds	9,594			9,594
State Grants				
Michigan Transportation Fund				
Engineering	6,209	3,791		10,000
Allocation	2,769,322	1,690,517		4,459,839
Urban Roads	161,394	29,914		191,308
Critical Bridge		30,333		30,333
Economic Development Funds				
"D" Funds	5,814			5,814
"F" Funds	272,000	-		272,000
Contributions--Local Units				
Townships	-	704,345	87,906	792,251
Charges for Services				
State Trunkline Maintenance			454,229	454,229
State Trunkline Nonmaintenance			330,961	330,961
Salvage Sales			6,130	6,130
Interest and Rents				
Interest Earned	13,427	2,649	412	16,488
Other Revenue				
Sale of Land			21,500	21,500
Private Contributions	187	33,750	19,107	53,044
Gain on Equipment Disposal	-	-	36,337	36,337
Total Operating Revenue	3,535,382	3,020,850	985,418	7,541,650
Other Financing Sources				
Insurance Recoveries			16,465	16,465
Total Other Financing Sources	-	-	16,465	16,465
Total Revenue and Other Financing Sources	\$ 3,535,382	\$ 3,020,850	\$ 1,001,883	\$ 7,558,115

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2004**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$1,504,666			\$ 1,504,666
Maintenance	1,189,575			1,189,575
Local Road				
Heavy Maintenance		\$ 746,676		746,676
Maintenance		2,311,738		2,311,738
Primary Road Structures				
Heavy Maintenance	113,266			113,266
Local Road Structures				
Heavy Maintenance		277,198		277,198
Maintenance		169,765		169,765
State Trunkline Maintenance			\$ 589,711	589,711
State Maintenance--Other			330,961	330,961
Equipment Expense--Net (Per Exhibit H)	(34,401)	(59,077)	(26,427)	(119,905)
Administrative Expense--Net (Per Exhibit H)	153,165	188,268		341,433
Non Road Projects			101,713	101,713
Capital Outlay--Net (Per Exhibit H)		(37,807)	(185,121)	(222,928)
Total Expenditures	\$2,970,549	\$3,596,761	\$ 810,837	\$ 7,378,147



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

December 17, 2004

Board of County Road Commissioners  
Gratiot County  
200 Commerce Drive  
Ithaca, Michigan 48847

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, as of and for the year ended September 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Gratiot County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Gratiot County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Gratiot County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division